

PHILIPPINES ECONOMIC WRAP-UP

JULY 29-AUG 04, 2000

----- Summary -----

This week we report on a June rebound in export growth, and on new government efforts to strengthen anti-money laundering efforts. The SEC and the BSP appear to be cooperating in efforts to broaden disclosure of bank ownership (in response to the embarrassing takeover of PNB by Lucio Tan). And, perhaps unaware of the irony of it, Philippine tax officials are investigating alleged perpetrators of the BW Resources scandal for tax evasion (much like the U.S. took down 1920's gangster Al Capone).

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our May Economic Outlook, which can also be found on our web site.

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----- Market and Policy Developments -----

FOREX REPORT -----

The Philippine peso gained some ground this week on increased trading volumes. Most traders attributed the

modest recovery to the rebound in regional currencies. The peso ended the week at P44.63/US\$; the July 28 close was P44.86/US\$.

4. The Bangko Sentral ng Pilipinas (BSP) announced on August 3 that it would begin calculating and publishing the "Nominal Effective Exchange Rate (NEER)" index on a daily basis beginning on August 16. The NEER will be included in the Bangko Sentral's daily press releases on the nominal peso-dollar rate. (The NEER has been published on a monthly basis since the 1980's.) The NEER computes the exchange rate against a trade-weighted basket of currencies including the US Dollar, the British Pound, the Japanese Yen and the German Mark. BSP Managing Director for Research Diwa Guingundo told reporters that the NEER will provide the public "a clearer picture of the purchasing power of the peso" and also serves as an indicator of external competitiveness.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
JUN 26	42.890	42.910	73.0
27	42.963	43.020	63.0
28	43.115	43.130	97.1
29	43.154	43.170	114.6
30	43.253	43.230	108.6
JUL 03	43.436	43.530	98.1
04	43.563	43.535	89.0
05	43.646	43.690	77.5
06	43.851	43.950	123.1
07	43.981	44.030	96.4
JUL 10	44.116	44.305	91.3
11	44.769	44.820	146.3
12	44.866	44.665	162.4
13	44.567	44.705	145.3
14	44.559	44.520	184.0
JUL 17	44.543	44.590	90.0

18	44.622	44.540	106.9
19	44.456	44.510	105.5
20	44.552	44.585	94.5
21	44.510	44.400	121.0
JUL 24	44.529	44.600	108.0
25	44.692	44.755	118.6
26	45.028	45.070	122.5
27	44.989	44.875	125.2
28	44.941	44.860	128.0
JUL 31	44.960	44.835	104.0
AUG 01	44.808	44.860	114.7
02	44.788	44.790	116.0
03	44.763	44.685	134.2
04	44.625	44.630	115.0

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

The Treasury Bureau continued to exercise firm control over any increase in interest rates as it rejected all offers for 182-day bills as "too high." At the July 31 auction, rates on 91-day bills rose a miniscule 0.6 basis points to 8.925% on a full award of P1 billion pesos worth of bills. Rates on the 364 day bill rose 16.6 basis points on a partial award of P1.15 billion (P1.5 billion worth of the 364-day bills were offered). Fears that the government will overshoot its P62.5 billion deficit target for 2000 continue to exert upward pressure on interest rates.

Similar results were seen at the August 1 auction of 7-year Treasury Bonds. With the government projecting an P81 billion deficit for 2001, traders bid up rates on the 7-year paper 25 basis points to 14.25% (from the previous month). Traders suggested that a full award would have pushed up rates 50 basis points. As it was, P4.13 billion worth of offers were received, but the Treasury only made awards of P1.64 billion out of the P3 billion worth of bonds on offer.

In a bid to help finance the planned 2000 deficit of P62.5 billion without jacking up domestic interest rates, Department of Finance Undersecretary Joel Banares has said that the Department is looking to tap into Foreign Currency Deposit Units (FCDUs) held by local banks. The Department had planned foreign borrowings of about \$1.5 billion, but only about \$1.33 billion of that requirement has been met. The DOF is already taking to investment houses about developing a five-year bond offering.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
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JUN 26	8.896	9.849	10.685
JUL 03	8.890	9.901	10.796
JUL 10	8.890	no sales	no sales
JUL 17	8.890	9.963	10.989
JUL 24	8.919	10.000	11.010
JUL 31	8.925	no sales	11.176

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
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JUN 28	11.1806	9.50 - 13.625
JUL 05	11.1715	9.50 - 13.500
JUL 12	11.1707	9.50 - 13.500
JUL 20	11.1540	9.50 - 13.500
JUL 27	11.1495	9.50 - 13.500
AUG 02	11.1546	9.50 - 13.500

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The 33-share Philippine Stock Index (PHISIX) found a floor at 1400 this week and recovered somewhat on thin

trading. Tech stocks like PLDT helped support prices, but Philippine National Bank (PNB) shares slid on rumors that Templeton Assets was selling out its 12.9% stake. Many traders, however, are skeptical that the 1400 floor will hold and that the next floor will be in the 1340-1350 range. Overall the Phisix ended the week at 1451.18; the July 28 close was 1437.08.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
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JUN 26	1532.24	628
27	1529.37	925
28	1531.01	873
29	1532.74	767
30	1533.99	938
JUL 03	1535.65	397
04	1538.88	525
05	1539.92	587
06	1542.41	687
07	1550.60	882
JUL 10	1557.57	765
11	1563.08	738
12	1554.57	902
13	1561.52	1321
14	1553.89	641
JUL 17	1546.60	609
18	1528.85	704
19	1516.99	1,233
20	1489.47	832
21	1479.46	952
JUL 24	1477.80	495
25	1481.60	341
26	1478.33	479
27	1448.90	589
28	1437.08	713

JUL 31	1417.17	1285
AUG 01	1410.33	544
02	1412.77	413
03	1436.06	533
04	1451.18	522

Source: Philippine Stock Exchange

DRIVEN BY ELECTRONICS, JUNE EXPORTS POST 19% GROWTH

From a 6.7% year-on-year growth in May, merchandise exports rebounded to 19.4% (\$3.4 billion) in June from a year ago, the National Statistics Office reported. This was the fastest growth in eight months as electronic manufacturers reported boosting shipments of computer chips, disk drives, printed circuit boards, and other components after a two-month slump. Overall, electronics exports grew 25% to \$2.2 billion in June, accounting for 65% of total exports. The second leading export, outperforming garments and textiles (\$247 million), is machinery and transport equipment, which earned \$437 million contributing nearly 13% to total June exports.

For January to June, merchandise shipments totaled \$17.6 billion, up 11.5% from last year but slower than 1999's comparable growth of 13.6% as exports of electronics slackened during the early months of this year. The U.S. accounted for the largest share (29%) of total exports for the first six months, absorbing nearly a quarter of electronics shipments and about three-fourth of garment sales. Second largest market but accounting for just 14% of total exports is Japan. A 37% surge in shipments to Taiwan (7.6%) contributed to the recovery in exports.

An official of the Semiconductor and Electronics Institute of the Philippines, Inc. (SEIPI) said that April and May shipments were particularly slowed by the Taiwan-Philippines air dispute, and a decline in average selling prices of some electronic products in the world market. The SEIPI official sees electronics exports going up again with the emergence of information technology and business-to-business electronic commerce. BSP Governor Rafael Buenaventura has remarked that

growing electronics exports should help improve the country's chance of achieving its economic growth target.

Table 1

Philippine Export Performance January - June 2000			
	1999 (FOB, Million US\$)	2000	Pct Change (y/y)
January	2,581	2,717	5.3
February	2,569	2,902	13.0
March	2,702	2,989	10.6
April	2,346	2,668	13.7
May	2,747	2,931	6.7
June	2,857	3,410	19.4
Jan-June	15,802	17,617	11.5

Source: National Statistics Office

Table 2

Leading Philippine Exports January - June 2000			
	1999 (Value in Mill\$)	2000	Pct Growth (y/y)
Total Exports	15,802	17,617	11.5
Manufactures:	14,199	15,796	11.2
Electronics	9,265	10,365	11.9
Machinery and transport eqpmt	2,142	2,701	26.1
Garments & textiles	1,155	1,289	11.6
Other manufactures	1,637	1,441	(12.0)
Traditional products:	1,064	1,354	27.2
Minerals	290	349	20.3
Fruits & vegetables	234	279	19.2
Coconut	182	256	40.6
Other agro-based goods	228	240	5.3

Other products	130	230	76.9
Other transactions	539	467	(13.4)

Source: National Statistics Office

Table 3

Leading Philippine Markets
January - June 2000

Country of Destination	1999 (Value in Mill\$)	2000	Pct Growth (y/y)	Pct Share 2000
TOTAL	15,802	17,616	11.5	100.0
United States	4,922	5,120	4.0	29.1
Japan	2,194	2,552	16.3	14.5
Netherlands	1,364	1,417	3.9	8.0
Singapore	1,115	1,342	20.4	7.6
Taiwan	975	1,334	36.8	7.6
Hong Kong	767	902	17.6	5.1
Malaysia	692	686	(0.9)	3.9
U.K. and N. Ireland	781	780	- -	4.4
Korea	430	605	40.7	3.4
Germany	538	661	22.9	3.7
Others	2,023	2,217	9.6	12.6

Source: National Statistics Office

ANTI-MONEY LAUNDERING EFFORTS

The Bangko Sentral recently took two new steps to combat money laundering, following its July 7 Circular 251 which directed banks and BSP-supervised non-bank financial intermediaries to take measures to record and verify the identity of their customers and to report unusual and suspicious transactions.

Circular 253, dated July 31, focuses on reporting suspicious transactions in a prescribed format. These transactions include: outward and inward remittances without visible legal purpose; unusual purchases of foreign exchange without visible legal purpose; large and complex transactions with no apparent or visible legal

purpose; unusual sales of foreign exchange whose sources are not satisfactorily established; and funds held or managed as deposit substitutes suspected to have been obtained from illegal activities. Such reports should be submitted within five banking days from: the date of the transaction; or the date the bank or financial institution obtained information that the transaction is being employed for money laundering purposes; or the date the institution reasonably suspected that the transaction is being used to launder proceeds from illegal activities. Circular 253 categorizes the report a "major report" and stipulates penalties for delayed submission.

A separate Circular Letter (also dated July 31) directs banks to submit, within 30 days, their specific action plans to comply with the requirements of the BSP's July 7 Circular 251, particularly with regards to the following provisions: to take reasonable measures to establish and record the true identity of clients; to examine and establish in writing the background and purpose of complex, unusually large transactions which have no apparent legitimate purpose; to report suspicious transactions to competent authorities; to close deposit accounts if there is reasonable ground to believe that the proceeds are from criminal or illegal activities; and to develop programs against money laundering.

Using the Philippines' inclusion on the list of "Non-Cooperative Countries and Territories" issued by the Financial Action Task Force on June 22, BSP officials continue to push legislators to relax bank secrecy laws as a major step towards improving anti-money laundering efforts. The matter remains controversial, however, and faces rough sailing in the Philippine Congress.

SEC SUPPORTS BSP ON BANK OWNERSHIP DISCLOSURE

The Securities and Exchange Commission (SEC) threw its weight behind an April 19, 2000 Bangko Sentral circular which tightened disclosure requirements on bank ownership. Beginning with the December 1999 BSP-required quarterly report on "Consolidated List of Stockholders and their Stockholdings", that circular directed corporate secretaries of publicly-listed banks to disclose the ultimate beneficial owners of bank shares

now recorded as "Philippine Central Depository (PCD) Nominee Corporation". Some brokers had resisted the measure for reasons of client confidentiality. In order to ensure the cooperation of stock brokers in providing banks' corporate secretaries with the required records and information, the SEC issued a written directive last week for the PSE to coordinate with its members and the PCD to ensure immediate compliance with the BSP's disclosure rules. The PSE's president, in turn, issued a memorandum to member-brokers on July 31 reiterating the BSP and SEC directives.

The Bangko Sentral had issued the April 19 circular following criticisms over Lucio Tan's quick and silent acquisition through the stock exchange of a controlling stake in Philippine National Bank -- and the bank regulatory authority's embarrassing inability to expeditiously determine the extent and details of such ownership control. The Bangko Sentral also argued that knowledge on beneficial ownership was essential to monitoring bank compliance with ownership-related prudential regulations (such as the single borrower's limit and limits on bank loans to directors, stockholders and related interests).

BW RESOURCES: THE TAX ANGLE

According to Bureau of Internal Revenue (BIR) officials, a special team at the agency has been conducting its own investigation into capital gains and documentary stamp taxes (DST) which may have escaped collection from alleged "over-the-counter" (OTC) transactions on BW Resources shares. The BIR inquiry -- launched in March -- began with leads contained in a controversial report on BW Resources stock trading transactions released in February by the PSE's then Compliance and Surveillance Group (which resigned en masse in March to protest the PSE's handling of the BW Resources investigation). That report indicated that OTC transactions had been used with several manipulative devices to drive up BW Resources' share price, and that certain taxes may also have gone uncollected in the process. (It is unclear if Philippine officials are aware of the ironic fact that notorious 1920's gangster Al Capone was finally convicted on federal tax evasion charges.)

Publicly-listed stocks transacted "over-the counter" (i.e., not transacted on the exchange) are subject to capital gains and DST. Listed stocks traded on the exchange are subject to DST and, in lieu of capital gains, a preferential stock transaction tax. BIR officials observed that scripless trading and the Philippine Central Depository's inability to distinguish between OTC and non-OTC transactions make it easier for OTC trades to escape taxation. For greater transparency, the recently enacted (July 2000) Securities Regulation Code (SRC) now provides stronger language on OTC activities by prohibiting sales and purchases of securities other than on a registered exchange "except in accordance with rules and regulations the Securities and Exchange Commission may prescribe". SEC officials interpret this as an outright prohibition on OTC trades, unless the SEC draws up regulations governing such transactions (i.e., no rules, no OTC trades).

The BIR special team hopes to complete its investigation by the end of this quarter and to submit its findings to higher BIR and Department of Finance officials for approval. Should the government try to collect any unpaid taxes, BIR officials expect the matter to be contested, possibly ending up in the courts. That the BW Resources tax angle happens to be intertwined with a larger stock manipulation and price-rigging case could be a complicating factor.